

BELARUSIAN MONTHLY ECONOMIC REVIEW



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- Reaching an agreement on a gas price for 2009.
- Deceleration of industrial growth.
- New borrowings from abroad and liberalisation of the business environment.
- Drop of exports to Russia.
- Immediate devaluation of the national currency by 20.5%.

Politics: Reaching an agreement on a gas price for 2009

In December, a meeting between Presidents of Belarus and Russia A. Lukashenka and D. Medvedev took place, where the issues of a gas price for Belarus in 2009 and other cooperation issues were discussed. The parties agreed upon the gas price, which, however, was not declared officially. According to the statement of A. Lukashenka, the price will be falling during the year, which will provide an acceptable level of the annual average price. Moreover, A. Lukashenka noted that because of the preferences in a gas price, the parties agreed on arranging settlements on energy resources in Russian rubles and about speeding up signing an agreement on joint air defense.

However, a tendency of improving relations between Belarus and EU maintained as well. In December, Lithuanian Foreign Minister V. Ushackas came to Belarus with a working visit. During his meeting with the Belarusian Foreign Minister S. Martynau the issues on bilateral cooperation and possible participation of Belarus in the project of the EU 'Eastern Partnership' were discussed. Thus, under the financial crisis Belarusian authorities cope to achieve intermediary goals in relations both with the EU and Russia, which might mitigate the impact of unfavorable stance of the global economy.

Real sector: Deceleration of industrial growth

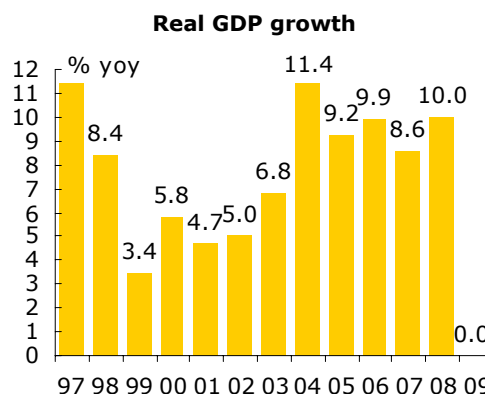
In November, an unexpected acceleration of GDP growth took place, which grew in Jan-Nov by 10.8% yoy (10.7% yoy in Jan-Oct). This tendency took place against the background of deceleration of industrial growth and was determined by the growth in the agriculture, which achieved 8.9% yoy (8.1% yoy in Jan-Oct).

In November, industry grew by 4.1% yoy, while the increase was provided because of inventories growth (if the inventories had not grown, then the industrial production would have fallen by 3.2% yoy in November). Furthermore, nine main industry branches performed a growth of only 2.2% yoy. It means that 'other branches' whose share in the structure of the industrial production is less than 13%, grew by 16.1% yoy. Hence, the tendencies of November witness about increasing impact of the global crisis on the Belarusian industry, which might not be captured fully by the national statistics.

Structural trends: New borrowings from abroad and liberalisation of the business environment

In the end of December, Belarusian officials declared about reaching an agreement between Belarus and IMF about provision of a loan for Belarus of USD 2.46 bn under a stand-by arrangements. Moreover, in January the information about obtaining a loan of USD 0.5 bn from Venezuela was affirmed. In January, the Executive Board of the IMF confirmed the decision on provision of a loan to Belarus and the first tranche of about USD 800 m was transferred to the government's account. According to the signed memorandum, Belarus took commitments to implement a new exchange rate regime, restriction of budget expenditure (including restriction of salaries in the

Population: 9.69 m
Industry / GDP: 26.7%
Agriculture / GDP: 7.4%
Investment / GDP: 26.3%
Export destination: Russia 37%, EU 44%
Import origin: Russia 60%, EU 22%



Source: Ministry of Statistics and Analysis. Forecast for 2009: IPM Research Center.

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budget sector and at the state enterprises in 2009), and carrying out structural liberalisation policies, including price liberalisation. In December, an Edict that postponed revisions of firms until enforcement of a new special legal act stipulating a unified order of such revisions was signed, which may be considered as one of the liberalisation measures. Later on, a Decree that stipulates an announcement principal of firms registration was adopted. Further, in January the complex plan of liberalisation of the Belarusian economy was adopted. Thus, sharpened problems of the Belarusian economy under the global financial crisis, for instance increasing trade deficit, brought Belarusian authorities to apply for new governmental borrowings and to implement new measures of economic and institutional policy.

Foreign trade: Drop of exports to Russia

In Jan-Oct, the merchandise trade deficit amounted to USD 4.7 bn, having grown by 47.0% yoy (48.9% yoy in Jan-Sep). During Jan-Oct, the exports grew by 52.0% yoy, while imports by 51.3% yoy. But in October this tendency changed because of the global crisis. In comparison to September, exports fell by 9.7% mom, and imports by 7.2% mom. New tendency was mostly evident in exports to Russia, which dropped by 17.1% mom (and by 4.4% yoy in comparison to October 2007). The decrease of supply to Russian markets was mostly peculiar to tractors (by 74.6% mom), trucks (by 64.1% mom), metal processing equipment (by 85.0% mom) and truck tractors (by 89.5% mom). In 2009, competitive positions of the Belarusian producers may worsen because of the protection measures that are going to be undertaken by the Russian government.

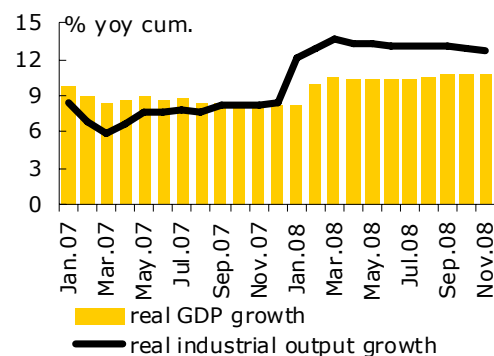
In trade with non-CIS countries the global crisis affect Belarusian producers mainly through falling prices. In October, in comparison to September average exports prices dropped by 11% mom. Hence, despite increase of supply by 12.4% mom, the trade profit decreased by 23.4% mom and compensated the deficit in trade with Russia only by 28% (34.5% in September). Trying to oppose to the negative conjuncture the government allowed enterprises to sell their production at market prices, even if they are lower than costs. But nevertheless in the medium-term period a decrease in the external demand, decrease of prices, growth of non-payments and deterioration of competitive positions at the Russian market are going to worsen the stance of the Belarusian foreign trade.

Public finance: Approval of non-deficit budget for 2009

In Jan-Oct, the surplus of consolidated budget amounted to 5.9% of GDP that is by 2.5 percentage points higher than in Jan-Oct 2007. Consolidated revenues reached 52% of GDP, while expenditures – 46.1%, which is higher than in Jan-Oct 2007 by 2.7 and 0.2 percentage points, correspondingly.

In January, a non-deficit budget for 2009 was set by adopting the President's Edict, despite previously the law for 2009 anticipated the budget with a 1.81% of GDP deficit. At the same time a budget law for 2009 anticipates a couple of innovations. There is a decreased rate of tax levy to the agricultural fund of 1% (2% in 2008), a local sales tax for imported production was reduced from 15% down to 5%, and active part of the production capital stock from the tax base of the real property tax. Furthermore, in 2009 the taxation of small business will be changed substantially. Since January 1st, individual entrepreneurs dealing with imported goods will pay single tax with a correction coefficient of 2 (1.5 in 2008). But at the same time, tax rates under the simplified taxation system were reduced from 10% down to 8% of the net revenue if not paying VAT, from 8% down to 6% if paying VAT, and from 20% down to 15% if using total revenues as a tax base.

GDP and Industrial Output



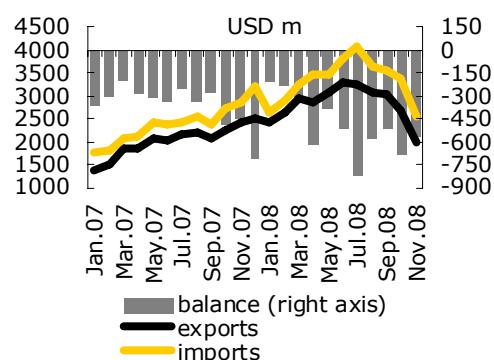
Source: National Statistical Committee.

Growth rates in Agriculture in 4th quarter before and after revision

	Operational data	Revised data	Difference
2000	24.2	22.2	2.0
2001	-4.2	-3.8	-0.4
2002	-5.2	-9.8	4.6
2003	23.0	16.9	6.1
2004	25.5	17.6	7.9
2005	-1.5	-0.5	-1.0
2006	23.6	19.8	3.8
2007	-2.4	-5.0	2.6

Source: National Statistical Committee.

Merchandise Trade



Source: National Statistical Committee.

Monetary policy: Immediate devaluation of the national currency by 20.5%

In November, net foreign assets of the monetary authorities decreased by 5.3% mom, which was equal to about USD 300 m. At the same time, trying to stimulate credit market NBB increased bank refinancing substantially in November, which resulted in increased claims on banks by 34.0% mom. But nevertheless base money shrank in November by 11.8% mom, while in annual terms its growth rate amounted to 41.9% yoy (68.5% yoy in October).

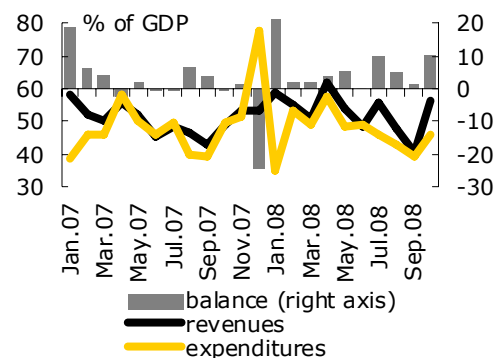
While the demand for foreign currency increased significantly, the liquidity level of the banking system was lowering. In this situation, interest rates at the credit and deposit market increased drastically, while the access to finance was hindered by banks. Thus, the growth rate of the credit to real economy fell to 56.1% yoy (57.2% yoy in October), after a long period of its increase. Cash in circulation decreased by 3.1% mom, while in annual terms its growth rate amounted to 33.8% yoy (40.9% yoy in October). Furthermore, there was a drop in the growth rate of ruble time deposits. In November its growth rate amounted to 25.0% yoy (38.6% yoy in October), which was mainly determined by households' deposits. However, a huge part of this outflow was compensated by the inflow of deposits in foreign currency. Finally, in November ruble money decreased by 4.9% mom, and broad money by 1.9% mom. In annual terms, their growth rates amounted to 31.4 and 28.3% yoy (45.1 and 39.9% yoy in October).

Consumer prices in November grew by 1.4% mom, and in annual terms inflation amounted to 14.7% yoy (15.7% yoy in October). Belarusian ruble was devaluated in November by 1.6% vs. US dollar and as of November 30 its exchange rate was 2153 USD/BYR. In December, negative tendencies at the financial markets strengthened and since January, 2nd NBB decided to carry out an immediate devaluation of the Belarusian ruble vs. US dollar by 20.5% taking commitments to peg Belarusian ruble to the currency basket of US dollar, Euro and Russian ruble (in equal shares). However, this step seems to be of doubtful effectiveness, while gradual, but rapid devaluation of Russian ruble eliminates advantages in price competitiveness in trade with this country, which is currently most vital for Belarus. Thus it will not change essentially the situation at the currency market due to foreign trade, at the same time increasing panic buying of foreign currency, at least in January.

Banking sector: EBRD purchased blocking shareholding in RRB-bank

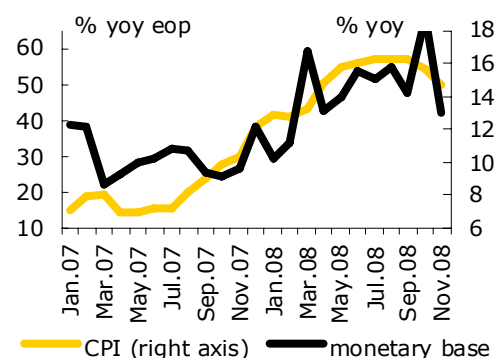
In December, RRB-bank informed about purchase of 25% plus one share in its capital by the European bank of Reconstruction and Development. RRB-bank is one of the medium Belarusian banks, which focuses mainly on granting loans for small business and consumer loans. The deal enhanced the bank to increase its capital up to about USD 25 m, which is close to new minimal capital requirements by the NBB (EUR 25 m). Having the EBRD as a shareholder may lead to provision of additional borrowed resources from EBRD for the bank. Furthermore, it hopes that it will lead to higher rating of the bank and better access to borrowings from abroad, which, however, may be doubtful during the global crises. In the scope of the whole Belarusian banking system, this deal shows that cooperation with international financial institutions might be the most realistic source of new capital and/or borrowed funds during the crisis. For instance, the deal of purchasing of Belinvestbank by Commerzbank was declared to be postponed, which demonstrates restraining of large investors from new deals within the Belarusian banking system during the global deficit of liquidity.

Consolidated Budget



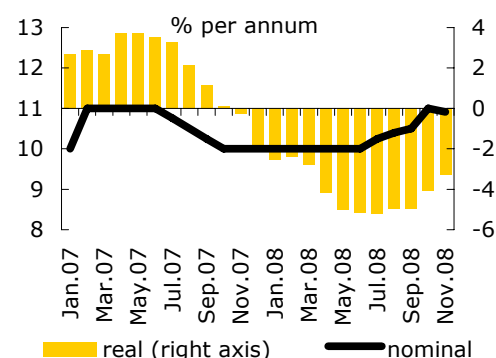
Source: calculations based on the National Statistical Committee data.

Monetary Base and CPI



Source: calculations based on the National Statistical Committee and the NBB data.

Refinancing rate



Source: calculations based on National Statistical Committee and the NBB data.

Economic Trends		Q4 06	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Sep. 08	Oct. 08	Nov. 08
GDP growth	% yoy	10.8	8.4	8.9	8.4	7.3	10.9	10.1	11.2			
GDP growth	% yoy cum.	9.9	8.4	8.6	8.4	8.2	10.9	10.4	10.7	10.7	10.7	10.8
Industrial Production	% yoy cum.	11.3	5.9	7.7	8.2	8.5	14.7	13.0	13.1	13.1	12.8	12.7
Agricultural Production	% yoy cum.	6.1	4.4	5.2	5.6	4.1	6.8	5.4	6.9	6.9	8.1	8.9
CPI	% yoy eop	6.6	8.1	7.2	9.0	12.1	13.2	16.0	16.3	16.3	15.7	14.7
PPI	% yoy eop	8.5	11.6	13.6	16.8	17.1	13.5	16.2	18.5	18.5	19.0	18.2
Merchandise export (USD)*	% yoy	13.6	6.3	23.3	18.5	44.4	69.2	56.0	44.9	44.8	19.8	-19.1
Merchandise import (USD)*	% yoy	23.5	20.8	23.7	23.8	42.4	56.5	55.3	53.1	49.4	23.1	-11.4
Merchandise trade balance (NBB data)	USD m cum.	-2398	-836	-1563	-2304	-3858	-647	-2049	-3835	-3835	-4470	-4995
Current account	USD m cum.	-1512	-641	-1152	-1652	-2944	-433	-1411	-2920	-2920	--	--
Current account	% GDP cum	-4.1	-7.0	-5.8	-5.1	-6.6	-3.6	-5.5	-6.6	-6.6	--	--
International reserves	USD m eop	1383	1565	2344	2155	4182	4746	4618	4120	4120	4052	3775
Monetary base	% yoy eop	20	22	29	25	38	59	54	48	48	69	42
Lending rate**	% p.a. aop	12	14	11	12	12	11	10	11	11	12	14
Exchange rate (official)	USD aop	2141	2141	2145	2147	2152	2148	2136	2114	2112	2114	2137
Exchange rate (official)	EUR aop	2761	2805	2890	2948	3115	3215	3339	3183	3039	2830	2719

* Growth rates in value terms (source: Ministry of Statistics and Analysis).

** Nominal rate of commercial banks for new loans for legal entities in national currency.

Sources: Ministry of Statistics and Analysis, NBB.

Key Economic Indicators		2001	2002	2003	2004	2005	2006	2007
Nominal GDP*	BYR trn	17.173	26.613	36.565	49.991	65.067	79.231	96.047
Nominal GDP**	USD bn	12.1	14.5	17.7	23.1	30.2	36.9	44.8
GDP Growth	% yoy	4.7	5.0	7.0	11.4	9.4	9.9	8.2
Industrial production	% yoy	5.9	4.5	7.1	15.9	10.5	11.3	8.5
Agricultural production	% yoy	1.8	0.7	6.6	12.6	1.7	6.1	4.1
CPI	% yoy aop	61.1	42.6	28.4	18.1	10.3	7.0	8.4
CPI	% yoy eop	46.1	34.8	25.4	14.4	8.0	6.6	12.1
PPI	% yoy aop	72.1	41.4	37.5	24.1	12.1	8.3	16.2
PPI	% yoy eop	40.9	42.7	28.1	18.8	10.0	8.5	17.1
Exports (gs, USD)	% yoy	10.9	9.8	24.4	35.7	15.8	21.8	24.3
Imports (gs, USD)	% yoy	11.1	9.0	25.1	40.3	3.0	33.0	27.9
Current account	USD m	-394	-311	-424	-1206	510	-1512	-2944
Current account	% GDP	-3.2	-2.1	-2.4	-5.2	1.7	-4.1	-6.6
FDI (net)	USD m	96	453	170	163	303	351	1768.9
International reserves	USD m	347	457	474	770	1297	1383	4182
Fiscal balance	% GDP	-1.6	-0.2	-1.6	0.0	-0.6	2.2	0.6
Domestic public debt	% GDP eop	6.1	5.4	5.5	5.7	5.8	6.5	6.4
External debt (total)	% GDP eop	24.8	27.0	23.7	21.4	17.9	18.6	28.4
Monetary base	% yoy eop	225	32	50	42	74	20	38
Exchange rate (official)*	USD aop	1394	1784	2075	2160	2154	2145	2146
Exchange rate (official)*	USD eop	1580	1920	2156	2170	2152	2140	2150
Spread***	% aop	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Spread***	% eop	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Exchange rate (official)*	EUR aop	1239	1690	2353	2684	2681	2692	2937
Exchange rate (official)*	EUR eop	1392	1989	2695	2956	2550	2817	3167

* On January 1, 2000 the Belarusian ruble was denominated 1:1000. All figures for 1999 are given in 'new' Belarusian rubles.

** For the period of 1999–2000, GDP in USD is calculated by using the market (unofficial) exchange rate (source: IPM Research Center).

*** Spread between the black market and official (NBB) exchange rates (source: IPM Research Center).

Sources: Ministry of Statistics and Analysis, Ministry of Finance, NBB, IPM Research Center.

Notes:

aop	average of period	gs	goods and services
avg	average	trn	trillion
bn	Billion	NBB	National Bank of Belarus
cum.	cumulative	p.a.	per annum
eop	end of period	yoy	year-on-year
m	million	ytd	year-to-date